

**REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL
LEGISLATURE AND COUNCIL ON THE CITY OF JOHANNESBURG METROPOLITAN
MUNICIPALITY**

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

1. I have audited the consolidated and separate financial statements of the City of Johannesburg Metropolitan Municipality (municipality) set out on pages xx to xx, which comprise the consolidated and separate statement of financial position as at 30 June 2012, and the consolidated and separate statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these consolidated and separate financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Refuse removal

6. Included in service charges revenue of R18 571 550 000 (2011: R15 209 782 000) is an amount of R695 821 000 (2011: R659 365 000) relating to refuse service charges. The municipality could not provide sufficient appropriate audit evidence in instances where source data and recorded billing data differed. I was unable to verify billing details relative to actual bins per account holder by alternative audit procedures. Consequently, I was unable to determine the accuracy, occurrence and completeness of revenue.

Sale of Water and Electricity

7. Included in service charges revenue of R18 571 550 000 (2011: R15 209 782 000) is an amount of R867 308 666 relating to the sale of water and electricity that was estimated for an extended period of time. Differences were identified between the billing data and the source data relating to meter readings without complete audit evidence to support the differences. The municipal entity could not provide sufficient appropriate audit evidence to confirm the basis for disregarding actual meter readings and use of estimates. Consequently, I was unable to confirm the accuracy and occurrence of the estimated service charges revenue.

Consumer debtors

8. As per paragraph 6 above, there were material deficiencies that were identified during the audit of the revenue from service charges which raised uncertainties regarding the accuracy and occurrence of revenue and consumer debtors' financial data. Due to the significance of the matters described in the preceding paragraph, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the valuation and rights pertaining to consumer debtors of R6 063 896 000 (2011: R4 326 735 000) as per note 9 to the financial statements.

Property, plant and equipment

9. The municipality did not classify a lease agreement as a finance lease where substantially all the risks and rewards incidental to ownership were transferred to the municipality in accordance with the Standards of Generally Recognised Accounting Practice, GRAP 13, Leases. Sufficient appropriate evidence could not be obtained to determine the valuation of the lease. Consequently, I was unable to determine the adjustment required to the carrying amount of property, plant and equipment and long-term liabilities.
10. The municipality could not provide sufficient appropriate audit evidence for the restatement in the corresponding figure of property, plant and equipment and accumulated surplus which was previously accounted for as an operating lease, as disclosed in note 43 to the financial statements. I was unable to confirm the restatement of corresponding figures by alternative audit procedures. Consequently, I was unable to determine completeness and valuation of the adjustments to the property, plant and equipment and accumulated surplus.

11. Included in infrastructure assets of R15 830 631 000 (2011: R14 636 255 000) is an amount of R38 272 000 (2011: R1 404 000) relating to the impairment loss. The municipality could not provide sufficient appropriate audit evidence in relation to the assessment of impairments, useful lives and residual values in accordance with the Standards of Generally Recognised Accounting Practice, GRAP 17 and GRAP 21. Consequently I was unable to determine the completeness and accuracy of the impairment loss disclosed in note xx to the financial statements.

Opinion

12. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the consolidated and separate financial statements present fairly the position of the municipality and its entities as at 30 June 2012 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA.

Emphasis of matters

13. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Significant uncertainties

14. As disclosed in note 46 to the financial statements, the municipality is the defendant in various lawsuits. The ultimate outcome of these matters cannot presently be determined or, and reliably measured; therefore no provision for any liabilities that may result has been made in the financial statements.

Restatement of corresponding figures

15. As disclosed in note 47 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during the year ended 30 June 2012.

Material losses

16. As disclosed in note 56 to the financial statements, material losses to the amount of R9 986 000 (2011: R66 938 000) were incurred as a result of cash losses due to fraudulent activities.
17. As disclosed in note 9 to the financial statements, material losses amounting to R805 200 000 (2011: R723 500 000) were incurred as a result of unaccounted for water.
18. As disclosed in note 9 to the financial statements, material losses to the amount of R1 372 899 000 (2011: R1 217 000 000) were incurred as a result of electricity distribution losses. The total technical losses of electricity incurred amounted to R709 461 000 (2011: R568 000 000).

Material impairments

19. As disclosed in note 9 to the financial statements, receivables have significantly been impaired. The impairment of receivables amounts to R12 956 580 000 (2011: R11 122 866 000), which represents 68% (2011:72%) of consumer debtors. The contribution to the provision for debt impairment was R1 833 714 000 (2011: R2 869 675 000).

Going concern

20. The consolidated statement of financial position shows that the total assets exceed total liabilities, fairly valued. However, a municipal entity, Pikitup Johannesburg SOC Ltd (Pikitup) has prepared its financial statements on a going concern basis even though the entity had an accumulated deficit of R336 482 963 and the total liabilities exceed total assets by R323 707 471. These conditions indicated the existence of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern.

Additional matter

21. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

22. The supplementary information set out on pages xx to xx does not form part of the consolidated financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

23. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

24. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.

25. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information (FMSSI)*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

26. The material findings are as follows:

Usefulness of information

Consistency

27. The Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), section 41(c), requires that the integrated development plan (IDP) should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 65% of the reported objectives, 82% of the reported indicators and 71% of the reported targets are not consistent with the objectives, indicators and targets as per the approved integrated development plan for the municipality. This is due to the lack of monitoring and review of performance as required by section 41(c) of the MSA.
28. The MSA, section 41(c) requires that the business plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 23% of the reported targets for Pikitup are not consistent with the targets as per the approved business plan. This was due to change of circumstances during the year.

Measurability

Performance targets not specific

29. The FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 48% of the targets relevant to selected programmes were not specific in clearly identifying the nature and the required level of performance for the municipality. This was due to the fact that management was aware of the requirements of the FMPPI, but chose not to apply the principles contained in the FMPPI.

Performance targets not measurable

30. The FMPPI requires that performance targets be measurable.
 - The required performance could not be measured for a total of 58% of the targets relevant to selected objectives for the municipality. This was due to the fact that management was aware of the requirements of the FMPPI, but did not receive the necessary training to enable application of the principles.
 - The required performance could not be measured for a total of 36% of the targets relevant to selected objectives for Pikitup. This was due to the manner in which the targets were determined.
 - The required performance could not be measured for a total of 38% of the indicators relevant to the selected objective for Roodepoort City Theatre (RCT). This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles

Performance indicators not well defined

31. The FMPPI requires that indicators/measures should have clear, unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 48% of the indicators relevant to selected programmes were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently for the municipality. This was due to the fact that management was aware of the requirements of the FMPPI, but chose not to apply the principles contained in the FMPPI.

Reliability of information

Validity

32. The FMPPI requires that processes and systems which produce the indicator should be verifiable.

- A total of 23% of the actual reported performance relevant to the selected objectives differed materially when compared to the source information and/or evidence provided for Metro Bus Services SOC Ltd (Metrobus). This was due to inadequate monitoring and review of actual achievements by senior management.
- A total of 50% of the actual reported performance relevant to the selected objectives differed materially when compared to the source information and/or evidence provided for Johannesburg Tourism Company NPC (JTC). This was due to the institution's records not permitting the application of alternative audit procedures.
- A total of 21% of the actual reported performance, relevant to the selected objectives differed materially when compared to the source information and/or evidence provided for Johannesburg Roads Agency SOC Ltd (JRA). This was due to a lack of standard operating procedures for the recording of actual achievements and the lack of review by senior management.
- A total of 50% of the actual reported performance relevant to the selected objectives differed materially when compared to the source information and/or evidence provided for RCT. This was due to a lack of review of the recording of actual achievements by senior management.

Accuracy

33. The FMPPI requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance.

- A total of 23% of the actual reported performance relevant to the selected objectives were not accurate when compared to source information for Metrobus. This was due to inadequate monitoring and review of actual achievements by senior management.
- A total of 21% of the actual reported indicators relevant to the selected objectives were not accurate when compared to source information for JRA. This was due to a lack of standard operating procedures for the recording of actual achievements and the lack of review by senior management.
- A total of 50% of the actual reported indicators relevant to the following objectives were not accurate when compared to source information for RCT. This was due to a lack of review of the recording of actual achievements by senior management.

Completeness

34. The FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained.

- Source information for 100% of the actual reported performance, for the selected programmes, was not completely recorded for the municipality. This was due to an inadequate document management system with regard to actual performance achievements.
- Source information for 23% of the actual reported performance, for the selected objectives, was not completely recorded for Metrobus. This was due to a lack of document management system with regard to actual performance achievements.
- Source information for 50% of the actual reported performance, for the selected objectives, was not completely recorded for JTC. This was due to the institution's records not permitting the application of alternative audit procedures.

Additional matter

In addition to the above material findings, I draw attention to the following matters and this does not have an impact on the predetermined objective findings reported above.

Achievement of planned targets

35. Of the total number of 579 targets planned for the year, 517 targets were not achieved by the municipality during the year under review. This represents 89% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

36. Of the total number of 33 targets planned for the year, 14 targets were not achieved during the year under review for Metrobus. This represents 42% of total planned targets that were not achieved during the year under review. This was due to reduced number of trips undertaken because of aging fleet.

37. Of the total number of 41 planned targets for the year, 26 were achieved during the year under review for JRA. This represents 35% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

38. Of the total number of 32 planned targets for the year, 25 were achieved during the year under review for JTC. This represents 22% of total planned targets that were not achieved during the year under review. This was due to lesser tourism promotion activities.

39. Of the total number of 23 planned targets for the year, 5 of targets were not achieved during the year under review for Johannesburg Property Company SOC Ltd (JPC). This represents 22% of total planned targets that were not achieved during the year under review. This was due to budget constraints.

Compliance with laws and regulations

40. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Budgets

41. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.
42. The total unforeseen and unavoidable expenditure incurred exceeded R15 million in contravention of Municipal Budget and Reporting Regulation 72.

Annual financial statements, performance and annual reports

43. The financial statements submitted by the municipality, Joburg Water and City Power for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a qualified opinion.
44. The financial statements submitted by the municipal entities for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements in assets and payables, identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Audit committee

45. The performance audit committee did not submitting at least twice, an audit report to the council on the review of the performance management system, as required by Municipal Planning and Performance Management Regulation 14(4) (a) (iii).

Procurement and contract management

46. Awards were made to providers who are persons in the service of the municipality in contravention of National Treasury's Municipal Supply Chain Management regulation (SCM regulation) 44. Furthermore, the provider failed to declare that he/she was in the service of the municipality, as required by SCM regulation 13(c).
47. Awards were made to providers who are persons in service of other state institutions or principal shareholders are persons in service of other state institutions, in contravention of SCM regulation 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
48. Goods and services with a transaction value of between R10 000 and R200 000 were not always procured by obtaining written price quotations from at least three different prospective suppliers, as required by SCM regulations 17(a) and (c) by JRA, Metrobus and RCT.
49. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a) by the municipality, Johannesburg City Parks, JPC, Metro Trading Company, Pikitup and RCT. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

Human resource management

50. Senior managers directly accountable to the municipal manager did not sign annual performance agreements within one month after the start of the financial year, as required by sections 57(1) (b) and 57(2) (a) of the Municipal Systems Act (MSA).

Expenditure management

51. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.
52. The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

Revenue management

53. Revenue received was not always reconciled on a weekly basis, as required by section 64(2) (h) of the MFMA by the municipality, Joburg Water and City Power.
54. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.

Asset management

55. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the MFMA.

Internal control

56. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

57. The accounting officer did not adequately exercise oversight responsibility regarding financial and performance reporting. The municipality did not have sufficient monitoring controls to ensure that financial and performance reports are supported by credible information.

Financial and performance management

58. The municipality does not have a project management system that supports financial information relating to infrastructure assets and Work In Progress.
59. There is no proper record management system for the maintenance of information reported in the financial statements and performance reporting. This includes information that relates to assets, domestic refuse revenue water and electricity revenue and performance information. Non-compliance with laws and regulations such as the MFMA, SCM regulations and MSA regulations could have been prevented had compliance been properly reviewed and monitored.
60. Management did not sufficiently review and monitor adherence to the SCM deviation framework resulting in repeat non compliance findings.
61. The municipal entities did not have a proper system of record management that provides for the maintenance of information that supports the reported performance contained in the annual performance report. This includes information that relates to the collection, collation, verification, storing and reporting of actual performance information

Governance

62. The performance audit committee did not promote accountability by providing oversight over the effectiveness of the internal control environment relating to performance reporting.

OTHER REPORTS

Investigations

63. Eighty-eight cases of alleged irregularities were being investigated. Five of these were conducted by external investigators and the remainder were investigated by the forensic section of the municipality's internal audit division during the 2011-12 financial year. Of these, 68 have been finalised. The nature of the cases covered a wide spectrum of activities, namely, bribery, theft, financial corruption, tender irregularities and various other issues. These fraudulent activities covered various departments of the municipality, including some of the municipal entities, and 20 cases were still pending, as investigations were still in progress.

Auditor - General

Johannesburg

14 December 2012



Auditing to build public confidence